# Exchange Situation Between Canada and U. S.

**Causes of fluctuation in money exchange between the two countries—Why it is that Canadian currency and cheques are quoted at a discount in the United States at the present time.**

(We have received so many inquiries on this question that we have thougth best to present the following statement to our readers as presented in a supplement to the Monthly Commercial Letter for March of the Canadian Bank of Commerce. We regret not having space to present the chart.—Editor.)

Every importer and exporter in Canada, no matter what commodity he deals in, is interested in the rates of exchange with foreign countries and, while for this reason the subject is one of considerable interest to a large part of the business community, at the same time the conditions governing the fluctuations in exchange between Canada and the United States, are often not clearly comprehended. To many people not fully conversant with this subject it is difficult to understand why the money of two countries bordering on each other and having the same monetary unit of equal weight and fineness, should not always be quoted at par. A man who will cheerfully accept $475 for a £100 cheque on London, representing a discount of over 2% on the par of exchange between Canada and Great Britain, will demur at receiving $99 for a $100 cheque on New York when United States exchange in Canada happens to be at a discount of 1%.

There are indications that in some quarters the distinct impression exists that the premium charged for United States funds remitted in settlement of Canadian collections, when exchange is against Canada, merely constitutes an extra profit which goes into the pockets of the Canadian banks, and that the exchange market for United States funds in Canada is manipulated by the banks in the latter country in such a way as artificially to maintain a situation by which they are supposed to benefit heavily. In order to dispel this quite erroneous idea it will be the aim of this article to set out the factors which control the movement of the exchanges between Canada and the United States.

Like any other exchange it is governed by economic principles, and the value of the United States dollar in Canada rises and falls with the volume offered and the amount required. This demand and supply in the broader sense is regulated by such concrete items as the volume of imports and exports, the payment of the amount due for interest on loans, and other factors which affect what is known as the trade balance.

In addition to these broader influences which cause the seasonal movements of United States exchange, there is a narrower factor, namely, the daily demand for and supply of United States funds in the Toronto and Montreal markets, which accounts for the violent fluctuations in such months as February and July, 1917. In normal times gold can be shipped from New York to Montreal and vice versa, at a cost of about 70 cents per $1,000 and the "gold points" (viz., the points at which gold will be shipped) for United States exchange are, therefore, approximately 5/64% premium and 5/64% discount; but owing to the abnormal conditions resulting from the war gold cannot now be shipped freely between the two countries, and the actual fluctuations in the exchange between the two countries are much wider than the margin of 5/32% between the "gold points".

The accompanying charts, showing graphically the course of United States exchange in Canada during the years 1915, 1916 and 1917, illustrate the seasonal movements referred to above. When the wheat crop begins to go forward in September the premium on United States funds in Canada is gradually reduced, and when the movement is at its height in October and November it is converted into a discount. As will be seen, United States funds in Canada have during the last three years usually been quoted at a premium and the dicount to which they fall in the autumn months is not as a rule a heavy one. The extremely low quotations for the month of October, 1917, were due to unusual circumstances. The Canadian banks at all times carry a part of their surplus funds in New York by way of call loans on stock exchange collateral. The amounts so loaned, of which the New York money market has the benefit, are usually largest during the summer months, and are withdrawn in part in the autumn to the extent of the sums required for the moving of the great field crops of the Canadian West. In September, 1917, the United States Treasury placed an embargo on the export of gold, and thereafter a Canadian bank could not withdraw its balances from New York except by selling them to another bank. When, therefore, in October the usual need arose in Canada for money to move the crops, the offerings of New York exchange in the Toronto and Montreal markets far exceeded the demand, and, owing to the embargo placed on gold by the Treasury, bankers were unwilling to increase their balances in New York by the purchase of United States funds even at an appreciable discount, as they could not be certain of being able to withdraw them as required except at a still heavier discount. As a result the rate fell as low as 15/16% discount. Representations were made by the Canadian bankers to Washington which resulted in the Treasury agreeing to a partial lifting of the embargo. Permission was given to ship $25,000,000 in gold from the United States to Canada, and the announcement of this arrangement was so reassuring that the rate for United States funds rapidly improved, even before the actual shipment of any part of the gold. The movement thus set in continued steadily throughout December and January. They receded somewhat in February, but at the time of writing a new high level of 1¾% has been reached.

The premium which the charts indicate as prevailing usually in the early part of the year is seasonal, but the appreciation in the rate for United States funds has been accentuated during the past two months by the operation of several abnormal factors, such as the disorganization of transportation and the consequent check on export from Canada, the enormous increase in imports from the United States due to heavy purchases of coal, iron, steel and other raw materials and the effect of the credits which Canada is granting Great Britain to assist in procuring supplies for the prosecution of the war. Canada's favorable trade balance for the year 1917 amounted to over $588,000,000, which in the ordinary course of events should have resulted in the exchanges being favorable, but her purchases from the United States were some $400,000,000 in excess of her sales to the latter country, and Canada, having given credit for a large proportion of her sales to Great Britain, is experiencing difficulty in settling her debt to the United States. This can be accomplished by adopting one or, better still, all of the fololwing plans

1. By increasing her exports to the United States.
2. By curtailing her imports of non-essentials.
3. By Great Britain arranging a credit in the United States for such portion of her purchases in Canada as are essential for the maintenance of Canadian industries and the successful prosecution of the war.
4. By the United States giving Canada the privilege of renewing certain of her obligations which mature during the coming year.

Canada abounds in natural wealth. She has tremendous assets in her crops, in her lumber and in her products of the mine and fisheries, the value of which has been